

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY TO AMEND TARIFF FOR) **CASE NO. 2020-00027**
THE ESTABLISHMENT OF QUALIFIED)
INFRASTRUCTURE PROGRAM CHARGE)

**KENTUCKY AMERICAN WATER
COMPANY’S POST-HEARING BRIEF**

Kentucky-American Water Company (“KAW”) hereby submits this post-hearing brief in support of its March 2, 2020 Application for the establishment of a 1.62% Qualified Infrastructure Program (“QIP”) Rider to be included on customer bills beginning on July 1, 2020. As set forth below, KAW’s Application follows the Commission’s thoughtful and well-reasoned decision establishing the QIP line item mechanism in KAW’s last base rate case¹ and will allow for the replacement and timely cost recovery of critical water infrastructure.

In Case No. 2018-00358, KAW proposed the subject QIP line item mechanism. That proposal included various classes of water treatment and distribution infrastructure, including water mains, storage tanks, valves, pump stations, pumping equipment, meters, SCADA equipment, and hydrants.² KAW explained that the QIP Rider would allow KAW to spend additional money towards pipe replacement and other aging water treatment and distribution infrastructure while moderating future rate increases.³ With its Application in the rate case, KAW submitted proposed tariff sheets for the QIP Rider.⁴ Those tariff sheets defined in detail what

¹ *In re the Matter of: Application of Kentucky-American Water Company for an Adjustment of Rates*, Case No. 2018-00358, Order of June 27, 2019.

² Case No. 2018-00358, November 28, 2018 Direct Testimony of Brent O’Neill, p. 24.

³ Case No. 2018-00358, O’Neill Direct Testimony, p. 36.

⁴ Case No. 2018-00358, Application Exhibit 2, Proposed Tariff Sheets 48-49.

would be “QIP Eligible Utility Plant” consisting of two distinct categories: (1) Distribution Infrastructure; and (2) Water Treatment Infrastructure. The intervenors in the rate case argued that the categories of QIP Eligible Utility Plant were overly broad,⁵ but the Commission specifically rejected that argument⁶ and approved those categories as proposed when it approved the QIP Rider in its June 27, 2019 Order in the rate case. The approved categories, which are now set forth in approved Tariff Sheet 48, are:

(N) **QIP ELIGIBLE UTILITY PLANT:**

(N) Distribution Infrastructure – distribution and transmission system structures and improvements, mains and valves installed as replacements for existing facilities; hydrants, distribution tanks; services, meters and meter installations, power generation and pumping equipment installed as replacements for existing facilities; unreimbursed funds related to capital projects to relocate facilities required by governmental infrastructure projects.

(N) Water Treatment Infrastructure – source of supply and water treatment structures, pipe and equipment including sampling equipment, SCADA equipment, power generation and pumping equipment installed as replacements for existing facilities.

(N) Indicates new rate or requirement

As the rate case progressed, KAW responded to numerous data requests seeking information about how the QIP would work, what assets would be included, and what amounts would be proposed in a QIP filing. One of those data requests was Attorney General 1-59 (“AG 1-59”) which KAW also filed in this case as an attachment to PSC 2-4. In AG 1-59, KAW showed its projections for the QIP through 2024. It showed what asset categories would be included and it showed that for the first QIP Period of July 2020 through June 2021, the projected amount would be approximately \$14.3 million.⁷ KAW’s Application in this QIP case is perfectly consistent with the asset categories set forth in that data response, and, of course, is perfectly consistent with Tariff Sheet 48 that was approved in the rate case. As for the amount, KAW’s proposal in this case is

⁵ Case No. 2018-00358, June 27, 2019 Order, p. 78.

⁶ Case No. 2018-00358, June 27, 2019 Order, pp. 81-84.

⁷ AG 1-59 showed \$5.3 million spend for July – December of 2020 and \$18 million for all of 2021. To derive an approximate spend for the QIP period of July 2020 through June 2021, one may add 5.3 and one-half of 18 to get \$14.3 million (5.3 + 9 = 14.3).

also consistent with what KAW projected in the rate case (and is actually a little less).⁸ At the March 12, 2020 hearing in this matter, KAW witness Kurt Stafford testified that KAW's proposal in this case is in perfect accord with both KAW's approved QIP tariff sheet and with KAW's representations in the rate case.⁹

During the May 12, 2020 hearing, questions arose related to the amount of spend proposed for main replacement compared to the spend proposed for asset classes not having mains. In response to that area of inquiry, Mr. Stafford testified that if the Commission approves the total amount requested in this case, KAW's budgeting process would allow KAW to place more emphasis on main replacement projects than on other asset classes and still stay consistent with the total amount requested.¹⁰ This can be achieved by moving some of the projected spend from asset classes not having mains to asset classes having mains.

Of course, as Mr. Stafford explained, *all* of the QIP Eligible Plant asset classes have replacement needs and KAW's proposal in this case seeks to address those needs in a "holistic" way using a fair and reasonable balance between asset classes having mains and asset classes without mains. KAW's proposal in this case is based on its professional operating and engineering judgment and on its experience in operating a water utility. KAW believes it is important to commit substantial resources to asset classes not having mains, which is precisely why KAW proposed all of those asset classes to be included in the QIP Eligible Plant in the rate case. A fair and reasonable balance between asset classes having mains and asset classes not having mains will also serve to maximize the length of time between rate cases. Having said that, as Mr. Stafford

⁸ KAW's proposed 1.62% line item charge is derived from a Net Change to Rate Base of approximately \$12.7 million resulting in a Revenue Requirement of approximately \$1.6 million. See Elaine Chambers' Direct Testimony, p. 6.

⁹ May 12, 2020 Hearing; Video Record, beginning at 9:56 a.m.

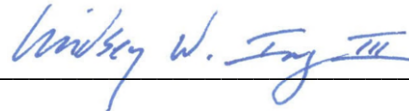
¹⁰ May 12, 2020 Hearing; Video Record, beginning at 10:47 a.m.

testified, should the Commission decide to encourage greater spend on main replacements going forward, KAW can and will accomplish that.

Less than a year ago, the Commission demonstrated excellent judgment in approving the QIP Rider with the defined QIP Eligible Utility Plant. That decision will serve customers well for many years to come. It will allow for the timely infrastructure replacement necessary to serve customers while balancing the need for KAW to receive timely recovery of that investment. It will also help KAW to refrain from filing a rate case for as long as possible. For all of these reasons, KAW respectfully asks the Commission to approve the Application as filed.

Respectfully submitted,

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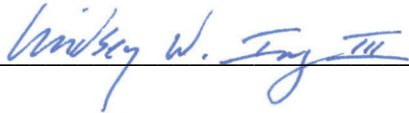
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Attorneys for Kentucky-American Water Company

CERTIFICATE

This certifies that Kentucky-American Water Company's electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on May 29, 2020; that a paper copy of the filing will be delivered to the Commission in accordance with the Commission's March 16, 2020 Order in Case No. 2020-00085; and that no party has been excused from participation by electronic means.

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